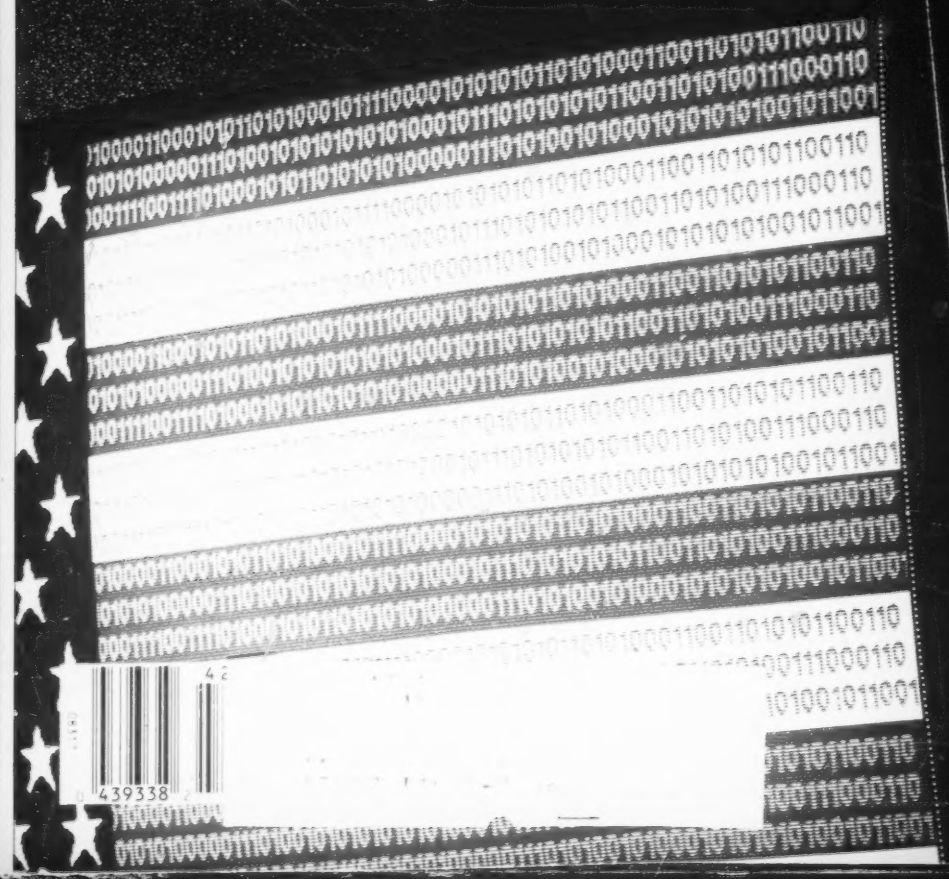
Thomas Sowell: Don't blame the kids, blame the educators

October 14, 1991 Four Dollars

Forbes

Smart TV

The Japanese hammerlock on consumer electronics is threatened. Will U.S. industry seize the moment?



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OCTOBER 14, 1991 VOLUME 148 NUMBER 8

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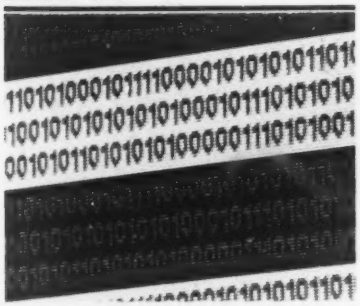

"We're not running out of landfill space. We're running out of politicians willing to site suitable landfills."
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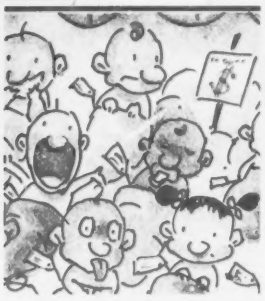

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October 14, 1991
Volume 148
Number 8
Forbes (ISSN 0015 6914) is published biweekly except weekly during two weeks in October, by Forbes Inc., 60 Fifth Ave., New York, N.Y. 10011. Second-class postage paid at New York, N.Y. and at additional mailing offices. Canadian second-class postage paid, permit number 9490. GST # R125769513. Subscription $52 a year, U.S.A. Postmaster: Send address changes to Forbes, 60 Fifth Ave., New York, N.Y. 10011.

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Cover photo by Lester Lefkowitz

strong case that Environmental Protection Agency regulations are a violation of Fifth Amendment prohibitions against taking private property. More importantly, expropriation of property results in the loss of the pricing signal that is essential for making efficient market decisions. When land prices are artificially set close to zero by government decree, it does not seem costly to use land for environmental purposes. Unfortunately, the true land price is hidden and inefficient public choice decisions are likely to result.

–James L. Doti
President
Chapman University
Orange, Calif.

Watch for splits

Sir: I was shocked to see Dean Foods listed as the "worst" performing stock in your Forbes/Barra Wall Street Review *(Sept. 30)*. The drop in the share price reflects a 3-for-2 stock split—not poor performance!

–Howard Dean
Chairman and Chief Executive
Dean Foods Co.
Franklin Park, Ill.

Editor's note: Our data supplier's computer missed a number of recent stock splits, and, unfortunately, our data checkers did not detect this error. Here are the correct split-adjusted 2-week changes for these stocks as of the market close on September 5, 1991:

Bergen Brunswig –3.8%
Dean Foods –0.6%
Deprenyl Research 35.0%

Read the instructions

Sir: Re Thomas Sowell's column on computer and VCR instructions *(Sept. 16)*. While users guides may not be as clear and concise as they could be, the largest problem is laziness and incompetence on the part of the user.

People who are willing to *read* the instructions before trying to obtain instant operation of their computer or VCR are often successful. Those who expect "one button" operation from their computer or VCR will soon find themselves in a frustrated rage.

–James A. Lesh
Bloomington, Ind.

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Manufactured by IWC Schaffhausen
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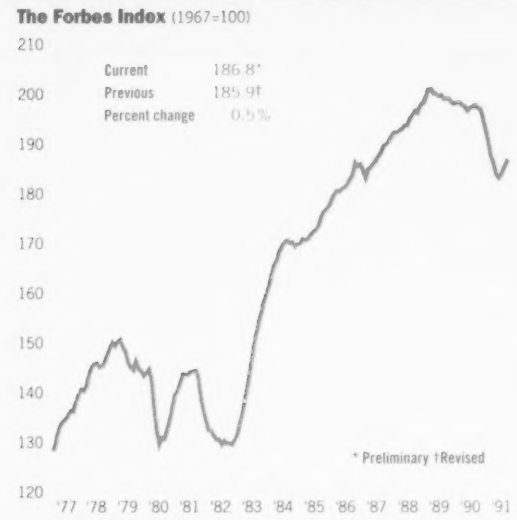
*Manufacturer's suggested retail price.

THE FORBES INDEX

BY TIMOTHY DODMAN


The Forbes Index (1967=100)
Current 186.8*
Previous 185.9†
Percent change 0.5%
* Preliminary †Revised
'77 '78 '79 '80 '81 '82 '83 '84 '85 '86 '87 '88 '89 '90 '91

Americans still have an appetite for foreign products. A large rise in imports—especially consumer goods and autos—pushed the merchandise trade deficit up 56% from June to July. But exports remain strong, too: July's deficit of $5.9 billion is a big improvement over the $9.1 billion trade deficit posted in July 1990. Meanwhile, residential construction has yet to show a substantial recovery, even though mortgage rates are at their lowest level since 1978. New privately owned housing starts fell 8.5% in August and are 7.3% below depressed year-ago levels.

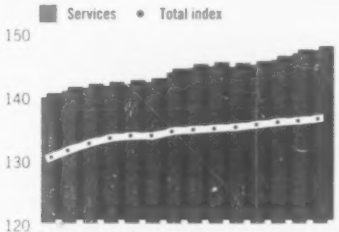
Other key rates	Source	Status
Prime rate	Chase Manhattan Bank	8.0%
Auto sales year to date vs 1990[1]	Ward's Automotive	-11.6%
Index of leading indicators July vs June	Dept of Commerce	1.2%
Trade balance 12 months ended July 1991	Dept of Commerce	-$81 bil
All-commodity producer price index Aug vs July[2]	Dept of Labor	0.3%
GNP 2nd quarter vs. 1st—annualized growth	Dept of Commerce	-0.1%
M2 (3-month change)—annualized growth[3]	Federal Reserve	0.5%

[1] U.S. based manufacturers, excludes imports, as of 9/10/91. [2] Wholesale goods. [3] Includes M1 (public currency and checking deposits) plus savings accounts and money market funds.

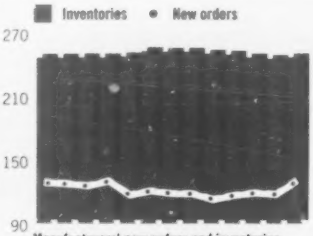
Index components

The Forbes Index is a measure of U.S. economic activity composed of 8 equally weighted elements: Total industrial production, new claims for unemployment compensation, the cost of services relative to all consumer prices, new housing starts, total retail sales, the level of new orders for durable goods compared with manufacturers' inventories, personal income, total consumer installment credit.

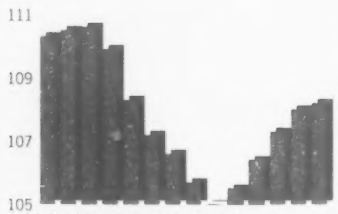
To measure these 8 elements, FORBES monitors 10 series of U.S. government data. The last 14 months' data for each series are presented below.



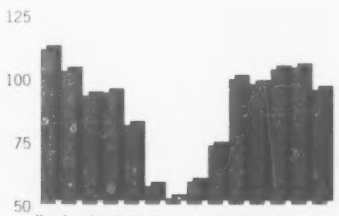
Consumer price indexes (1982-84 average=100) all urban consumers, unadjusted (Dept of Labor)



Manufacturers' new orders and inventories ($billions), seasonally adjusted (Dept of Commerce)

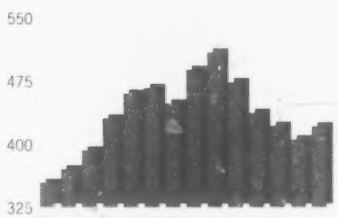


Industrial production index (1987=100) seasonally adjusted (Federal Reserve)

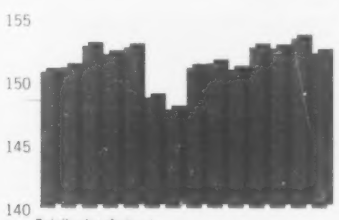


New housing starts (thousands) privately owned, unadjusted (Dept of Commerce)

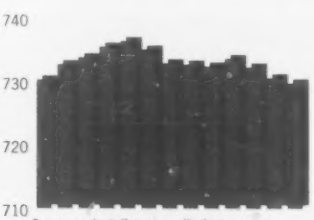
Personal income ($billions) wage and salary disbursements, seasonally adjusted (Dept of Commerce)



New unemployment claims average for month (thousands), seasonally adjusted (Dept of Labor)



Retail sales ($billions), seasonally adjusted (Dept of Commerce)



Consumer installment credit ($billions) total, seasonally adjusted (Federal Reserve)

J A S O N D J F M A M J J A J A S O N D J F M A M J J A J A S O N D J F M A M J J A

A new economic grouping is emerging in Central Europe that is eager to buy practically everything America has to sell. Naturally the Western Europeans are worried.

Welcome to the dollar bloc

By Peter Fuhrman

DON'T BE MISLED by all the tales of economic gloom in Poland, Hungary and Czechoslovakia, as those countries probe their ways toward market economies. Statistically, it is true, their national incomes will contract by 5% to 10% this year. But these declines simply reflect the closure of old socialist industries—the write-down, as it were, of obsolete plant, equipment and inventory. What the figures don't disclose is the explosion in consumer spending and investment now under way in the Central European countries.

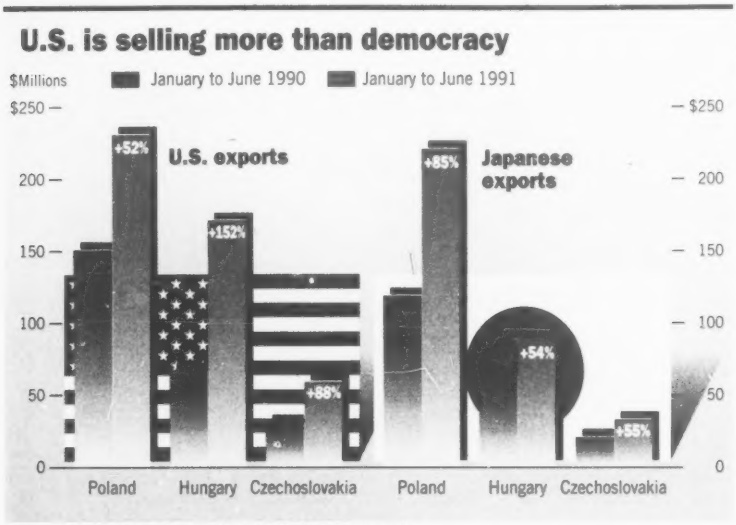
Arising from the ashes and debris is a Central European Community. A primary market of 65 million consumers—with another 245 million in the wings in Bulgaria, Romania, Russia, the Baltics and the Ukraine—the CEC is pro-America, pro-free trade and very pro-dollar. The exchange rates for these three countries are pegged to the dollar, either formally by their central banks or informally by the (no longer black) market.

This has real-world consequences: Wherever the dollar is king and markets are open, as in most OPEC countries and parts of Latin America, U.S. merchandise exports tend to do best. Through the first half of this year, U.S. exports to Poland, Czechoslovakia and Hungary are up by 85% over the same period a year ago, to a total $464 million *(see chart, p. 102)*. Though this is from a low base (U.S. exports to South America run to $15 billion a year), this growth outstrips that of U.S. exports to any other region. Also, given how much U.S. merchandise is being imported through unofficial channels, these trade statistics undercount the growth in U.S. exports to the region.

Every day, trains and cars from Berlin, Brussels and Vienna arrive in Warsaw, Budapest and Prague stuffed with Apple computers, Sony tape players, Levi jeans. Some of the goods remain. Some move east along new trade routes that extend into former Soviet territory. On the train from Warsaw to Vilnius in Lithuania, for example, passengers set up cardboard counters to sell electronic goods and clothing. Others bargain all night with one another and the conductors. Medium of exchange: dollars.

In Poland alone it's estimated there is at least $8 billion in U.S. currency in circulation as a parallel currency with the zloty. Poland's 40 million citizens have another $30 billion or so stashed in private bank accounts inside and outside Poland. The Polish central bank just issued $5.5 billion of its own dollar-denominated Treasury stock to Polish customers. These Polo-dollars further enhance Poles' confidence in their country's finances.

Walk around Warsaw's Marszalkowska Street, the city's main shopping area, and the shops and sidewalk



Germany, with its strength in industrial exports, remains the CEC's largest trading partner. Consumers' cash is driving much of the growth in dollar-denominated exports from the U.S. and Japan.

stalls are crammed with Procter & Gamble detergents, Reebok sneakers, Mobil motor oil, Estée Lauder cosmetics. Down one side street, cigarette sellers hawk cartons of Marlboros, made in the U.S. but without tax stamps, for $9.50—far cheaper than anywhere else in Europe. One can pay in dollars or zlotys—or for that matter, rubles: The exchange rate between the zloty and the ruble is fixed against a dollar peg. (Current rate: $1 = 11,000 zlotys = 35 rubles.)

It's not just sneakers and software that are selling. The U.S. is strongest where Central Europe is weakest—in services. The largest operator of restaurants and food retailing shops in Hungary is majority-owned and managed by George Hemingway, a 44-year-old Hungarian-born Californian. (His eponymous holding company is quoted on the Vienna Stock Exchange.) American Express' travel office in Warsaw has been besieged since it opened in June. Poles want AmEx's charge card, though in many cases the applicant is really a company looking to use the card as a form of dollar-based commercial credit.

American films, videos and recorded music are everywhere. U.S. accounting firms—Arthur Andersen, Ernst & Young, Coopers & Lybrand—are having a field day in Central Europe, acting as auditors to local companies, advisers to governments on new tax statutes and investment bankers for Western firms hunting for assets. Big Wall Street firms—including Goldman, Sachs, Morgan Stanley and First Boston—are active in the region. Major Madison Avenue advertising agencies are also in the chase, led by Young & Rubicam, which has offices up and running in Budapest, Prague and Warsaw.

"The three Central European countries are soaking up everything we can deliver, and overall sales should double again this year to $300 million," says Jakob Schmuckli, president of Sony Europe. "But all this has been achieved without any real advertising effort, which we're only just beginning."

Admirably, these newly emergent democracies are showing less willingness to go on protecting their own industries in the European Community's fashion, with quotas and local content rules. Open markets mean open season for U.S. and Japanese capital goods exporters. In Central Europe, U.S. computer companies like IBM and Compaq and Japan's NEC are trouncing their Western European counterparts. Likewise in telecommunications. AT&T is regularly thwarted in its efforts to sell switching equipment in protectionist Germany and France, but has walked away with valuable contracts in Poland. GTE is building a cellular telephone system in Hungary.

A question mark, however, hangs over the issue of free trade in automobiles. For now, Polish and Czech markets are effectively monopolized by domestic car producers tied to Western European firms. In Poland, FSM is affiliated with Italy's Fiat. In Czechoslovakia, Skoda is now owned by Germany's Volkswagen. There are no formal government promises (yet) to keep Poland and Czechoslovakia closed to imports. But Fiat and Volkswagen will push hard to remain the privileged providers. (In Hungary, which never had a domestic automobile industry, the gates have been thrown open.)

Western Europe's carmakers fear that, left to their own free-trade devices, the Central European countries could become a back door through which Japanese-made cars might flood into Western European markets. To bar such competition, European Community bureaucrats are now hinting that the Central Europeans may have to agree to limit Japanese car production and imports if they want someday to pass muster as applicants for membership in the EC.

Such an EC-imposed trade restriction would put the Central European countries in a bind: They need free access to Western European markets, especially for their food products. But they know in their heart of hearts that they also need as free as possible trade and investment to achieve swift economic renewal.

It all amounts to a most provocative experiment in postcommunist political economy. The Western Europeans hope to maintain their comfortable standard of living and defend many of their least competitive industries with subsidies and trade barriers. The Central Europeans need to improve their material conditions, and are convinced that open trade and investment policies offer the only hope of doing that. Stasis versus dynamism: Whichever wins will have a profound impact on the economic future of Europe. ■

Who's got the best science?

COMMENTARY BY MICHAEL GIANTURCO

Michael Gianturco is president of The Princeton Portfolios, a New Jersey asset management firm that specializes in science and technology stocks.

MOST scientific papers produced in the U.S.—over 63% of them—come from just 13 states. Each of these science superstates has been responsible, over the past five years, for more than 50,000 papers, according to data compiled by the Institute for Scientific Information in Philadelphia. The top 7 states were California (with 306,000 papers), New York, Massachusetts, Texas, Maryland, Pennsylvania and Illinois. From Illinois came about 115,000 papers, and the remaining 6 states published fewer than 100,000 papers each.

Such large numbers—science by the bale, as it were—provide intriguing advertising copy for state development agencies and chambers of commerce in the 13 big science states. But the information is too coarse-grained to be of much use to investors, venture capitalists, regional economists, developers or other businesses users.

It is much more helpful to look at the scientific profile associated with individual zip codes. The idea is to identify, however imperfectly, places where excellent scientists work. Such a table is presented here. The 12 best zips in American science are ranked. Along with each zip code are noted one or more corporations or research institutions that account for the research citations.

For a company or institution to turn up in this ranking, it is not enough to simply publish scientific papers in bulk quantities. To qualify, the papers must report findings important enough to have been widely noted—that is, formally cited many times, in other scientific papers written by other scientists. Citations of scientific papers are compiled in the annual *Citation Index*, which is prepared and published by ISI.

By dividing the number of papers published by a given lab into the number of times its papers are cited by outside scientists, analysts can gain a feel for how useful or significant that laboratory's papers might be, at least in the view of its peers. (Scientists may or may not agree with a paper, but the fact that they cite it in their own papers signals they are paying attention.) This ratio of citations to papers, called the "citation impact," can also be used to evaluate the scientific output of individual scientists, of universities, companies, states and—for our purposes—zip codes. Citation impact was used by David Pendlebury of ISI to identify the "hottest" zip codes in America for scientific visibility.

Some caveats: First, some superb science goes unheralded and uncited. It happens in every generation. Citations show only what is being vigorously discussed currently, that is, what is scientifically fashionable. Second, biomedical and biotechnology research tends to draw more citations than papers in other fields. For investors, this could be useful, but note that the rankings inherently favor biomedical over physical science. For a ranking of biotechnology companies by citation impact, see my Dec. 10, 1990 FORBES column.

The ranking is just a place to begin, not a bottom-line stock analysis, so there are no stock recommendations to be extracted. Note, however, the rising importance of the Swiss company, Hoffmann-LaRoche, in American science. Genentech and a significant asset created by Cetus (the polymerase chain reaction that is used to multiply specks of DNA into measurable quantities) have both been sold to Hoffmann-LaRoche. Both companies, along with Hoffmann-LaRoche itself, are ranked very high on this list. Note also the increased scientific strength of the already impressive Chiron Corp., which has purchased the rest of the assets of Cetus. ■

The "hottest" scientific papers published in the U.S. since 1986 originated in these zip codes.

The 12 best addresses in American science

Zip code	Citations per paper	Community or locale	Institution or company
02142	24.6	Cambridge, MA	Whitehead Institute
11724	22.0	Long Island, NY	Cold Spring Harbor
94080	18.9	So San Francisco	Genentech, Inc
94608	18.3	Emeryville, CA	Cetus Corp; Chiron Corp
			DNA Plant Technology
92138	13.9	La Jolla, CA	Salk Institute
94043	12.6	Mt View, CA	California Biotechnology
			Polyatom Research Institute
			Lightwave Electric
80206	11.3	Denver, CO	Natl Jewish Ctr Immunology
98101	11.0	Seattle, WA	Immunex Corp
92037	10.1	La Jolla, CA	Scripps Clinic
			La Jolla Cancer Research Fdn
20850	9.7	Rockville, MD	U of Maryland Biotech Ctr
			Biotech Research Labs
			Otsuka American Pharm
20892	9.7	Bethesda, MD	National Institutes of Health
07110	9.6	Nutley, NJ	Hoffmann-LaRoche

THE FORBES/BARRA WALL STREET REVIEW

BY ERIC S. HARDY

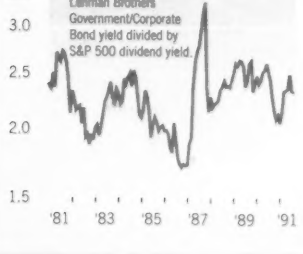
The overall market is selling for 23 times trailing earnings. Isn't that rather steep? Or is the market correctly discounting the future?

The Bank Credit Analyst, a Montreal-based economic and financial markets forecasting service, anticipates that U.S. corporate profits, with the help of declining interest rates and low inflation, will rise sharply in 1992. Another service concurs: The Institutional Brokers Estimate System expects that earnings of the S&P 500 will rise 27% in 1992. Says a third source, Prudential Securities market analyst Larry Wachtel: "One major difference between now and the [1987] crash is that interest rates are falling, not rising as they were in October of 1987." Wachtel says the market could go a bit higher, if investors move from low-yielding money funds into stocks. But the biggest question is whether those 1992 earnings forecasts can be trusted.

Special focus

Over the last ten years, bond yields have averaged 2.3 times stock yields (as measured by the Lehman Brothers Government/Corporate bond index and the S&P 500 stock index). In September 1987 this ratio climbed to 3.3, but stock prices crashed in October 1987. Now, with bonds and stocks in a rally, yields on both are falling. The ratio has stabilized around 2.3, near the long-run average. But if inflation returns and bond yields rise again, stocks may take a beating.

Relationship of bond to stock yields



The overall market

Closeup on the market

Index or investment	2-week change	% change from 1 year	% change from 5-year high
Barra All-US index	0.0%	20.7%	-1.8%
Sharpe/Barra Growth index[1]	-0.3	32.4	-2.1
Sharpe/Barra Value index[2]	-0.3	20.9	-1.8
Dow Jones industrials	0.5	20.1	-1.0
S&P 500	-0.4	24.4	-2.3
NYSE	-0.3	24.2	-2.0
Nasdaq	1.1	43.4	-0.7
Amex	-0.2	16.2	-7.1
EAFE[3]	2.0	8.3	-20.4
CRB index[4]	1.9	-8.6	-20.4
Gold[5]	0.3	-10.6	-30.7
Yen[5]	-1.0	-2.4	-18.1
Oil[5]	0.2	-37.3	-47.1

The best and worst performing stocks[6]

Best	Price	2-week change	1991 EPS[7]	Worst	Price	2-week change	1991 EPS[7]
Vestar	12 5/8	44%	$-0.32	Digital Systems Intl	9 1/4	-45%	$1.17
Network General	13 3/8	41	0.61	Alias Research	12	-37	0.86
Nova Pharmaceutical	7 1/2	36	-0.20	Transco Energy	19 7/8	-27	1.54
Platinum Technology	17 3/8	35	0.23	Atmel	10 3/8	-23	0.90
Liposome	14	33	-0.39	SynOptics Communications	21	-22	1.81

The best and worst performing industry factors[8,9]

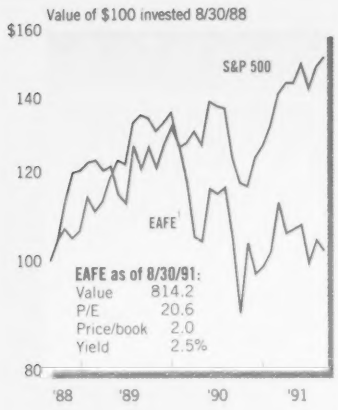
Best	2-week change	Since 12/31/90	Worst	2-week change	Since 12/31/90
Tobacco	5.9%	54.3%	Oil service	-3.4%	-1.4%
Leisure, luxury	3.3	36.1	Construction	-3.3	11.3
Life insurance	3.2	18.2	Electronics	-2.9	17.0
Containers	2.4	31.4	Aluminum	-2.8	6.4
Drugs, medicine	2.2	41.1	Paper	-2.3	13.1

Note: Data for period ending 9/19/91. The Barra All-US index consists of all publicly traded common stocks for which price quotations are available and ordinary shares of foreign stocks trading on U.S. markets. ADRs, REITs and closed-end funds are excluded. [1] Total return of a portfolio of more than 150 large-capitalization stocks that has high historical earnings growth and has predicted above average earnings growth. [2] Total return of a portfolio of more than 300 large-capitalization stocks characterized by low price-to-book ratios, high yields and low price-to-earnings ratios. [3] A dollar-denominated capitalization-weighted index of more than 1,000 stocks from Europe, Australia, New Zealand and the Far East. Source: Morgan Stanley Capital International Perspective. [4] Index of 21 commodity futures. [5] Knight-Ridder Financial Information. [6] During the last two weeks. [7] Estimate. Source: Institutional Brokers Estimate System, from Lynch, Jones & Ryan. [8] Shows return to the industry factor after controlling for other influences including company size, value and growth characteristics. Multi-industry firms have proportional contributions in two or more groups. Principal source: Barra, Inc., Berkeley, Calif.

WORLD MARKETS REVIEW

BY GUSTAVO LOMBO

Foreign vs. U.S. markets



Developed markets

Market	Total return[2] 3 months	12 months	P/E
Hong Kong	9%	37%	12
Australia	7	8	13
Denmark	6	1	NM
United Kingdom	5	14	15
United States	2	27	19
Austria	-11	-25	30
Italy	-11	-20	15
Finland	-10	-22	59
Japan	-10	-4	35
New Zealand	-10	-24	8

Emerging markets

	Total return[2] 3 months	12 months	P/E
Region			
Latin America	32%	67%	NA
Asia	-3	-4	NA
Country			
Brazil	56	37	11
Chile	33	127	15
Pakistan	31	51	13
Greece	-19	-45	9
Turkey	-17	-61	18
Indonesia	-16	-42	18

Through August the 1991 total return on the S&P 500 was 22%. In contrast, Morgan Stanley's Capital International Perspective dollar-denominated EAFE index of 1,100 European, Australian, New Zealand and Far Eastern stocks returned only 4%. The strong dollar was part of the reason, but so were some weak overseas markets. Japan, in particular, pulled down the index. Japanese shares have a weight of 27% in the EAFE index, and so far this year the return (in dollars) on Japanese stocks has been only 0.2%.

But other foreign markets have been strong. Since January the Morgan Stanley index for Hong Kong posted a 40% total return. Chris Thompson, managing director of W.I. Carr (America) Ltd., a stock brokerage firm specializing in Asian markets, points out that as a leading exporter of consumer goods made in China, Hong Kong is benefiting from higher output from Chinese factories, many of them in the neocapitalist southern provinces (FORBES, *Aug. 5*). Nevertheless, there remains a great deal of uncertainty about what will happen when communist China takes control of Hong Kong in 1997.

Who's hot

Company/Country	Business	Price	3-month price change	P/E
Schmalbach-Lubeca/Germany	materials	340¾	68%	27
Vard A/Norway	transportation	12⅞	38	10
Printemps AU/France	merchandising	146⅞	36	19
Siebe/UK	multicompany	8⅝	29	9
Showa Shell Sekiyu/Japan	energy	14⅛	26	52

Who's not

Company/Country	Business	Price	3-month price change	P/E
Matsuzakaya/Japan	merchandising	15⅝	-38%	21
Nouvelles Galeries/France	merchandising	97¾	-32	17
Massa/Germany	merchandising	154⅝	-29	40
Nobel Industrier/Sweden	aerospace & tech	7⅛	-29	8
Universale-Bau/Austria	construction	168⅞	-28	41

Cheap foreign stocks

Company/Country	Business	Price	Earnings	P/E
ABN-AMRO Hldgs/Netherlands	banking	20½	$2.76	7
British Gas/UK	utility	4	0.48	9
Tel de Espana/Spain	telecom	9	0.76	12
Daimler-Benz/Germany	automobiles	433½	27.44	16
Canal +/France	broadcast, pub	186	8.38	22

High-yielding foreign stocks

Company/Country	Business	Price	Yield	P/E
Trafalgar House/UK	multicompany	4¼	9.7%	23
Winsor/Hong Kong	textiles, apparel	1¼	8.3	13
Transalta Utilities/Canada	utility	11⅛	7.7	12
Natl Australia Bk/Australia	banking	5⅜	7.3	12
Thyssen/Germany	metals, steel	135⅛	6.6	8

Note: Data for period ending 8/30/91. Selected stocks have a market capitalization of at least $300 million. [1]Shows price return on the EAFE index of European, Australian, New Zealand and Far Eastern stocks converted into U.S. dollars. [2]Performance numbers reflect both local price change and currency fluctuation. Dividends are reinvested after subtracting foreign withholding tax. NA: Not available. NM: Not meaningful. Principal source: Morgan Stanley Capital International Perspective. Emerging markets data provided by International Finance Corporation for period ending 7/31/91.

Latin government debt has come so far in the past five years that you could almost call it investment grade.

Latin bonds

By Eric S. Hardy

ANYONE BUYING Argentinean government bonds a year ago as anything but a rank speculation would probably have been dismissed as a kook. But look at what happened. The dollar-denominated 7.375s of 1999 have been current on interest payments since their issue in August 1987, and their price has climbed from 51 (that is, 51 cents per dollar of face value) to a recent 79.

Latin America is discovering the benefits of capitalism and free enterprise. The Chilean economy, freed of its old feudal and statist restraints, has been growing steadily since 1984. Argentina has reduced its inflation rate from 27% monthly to 2.6% this July. Brazil, Bolivia and Peru, none of them with reputations of fiscal virtue, are now reducing government spending. J.P. Morgan, which recently underwrote a $300 million issue of two-year, U.S.-dollar-denominated Argentinean bonds, even predicts that Argentina will run a budget surplus over the next four quarters. There must have been some believers, because investors accepted a yield of only 11% on the issue. U.S. corporate junk bonds pay more.

"I'm seeing much more interest in Latin American debt, both government and corporate," says Merrill Lynch economist Frank Fernandez, whose firm is creating a performance index for developing country debt.

For yield-hungry investors, many of the issues still look interesting. Be careful: Issues such as those sampled in the table remain very illiquid, at least compared with U.S. Treasury paper. Also, you have to know what you are buying. Note the huge price discrepancy between the two Brazilian issues. The first is the highest-quality bond of that country, a general credit obligation of the Brazilian government, while the second, issued as part of a debt restructuring, is paying only partial interest.

If you want professional management, consider Megy Income Fund, run by Hector Megy, a 38-year-old native of Argentina who now lives in Palm Beach, Fla. His new fund invests mostly in Latin American bonds and is no-load but has a $100,000 minimum and projects a steep 2.4% annual expense ratio. It appears to be the only thing close to a pure-play Latin bond fund, but some international funds, including Templeton Global Income Fund and GT Global Latin America Fund, have around 10% of their assets in Latin debt.

Latin dollar bonds

Country	Moody's rating	Maturity	Coupon	Recent price	12-month high	12-month low	Current yield	Yield to maturity	Amount outstanding ($mil)	Inflation[1]	Economic growth[2]
Argentina	—[3]	10/25/99	7.38	79	79	51	9.3%	12.6%	$500	2,311%	-0.9%
Argentina	—[3]	5/31/97	9.63	38	51	36	NM	NM	425	2,311	-0.9
Brazil	B2	10/15/99	7.31	85	85	66	8.6	10.4	670	2,928	-4.6
Brazil	—[3]	11/30/03	11.13	39	55	33	NM	NM	90	2,928	-4.6
Chile	—[3]	12/31/05	7.31	91	91	77	8.0	10.8	77	26	2.1
Colombia	Ba2	3/31/94	7.63	83	87	66	9.2	9.8	813	29	4.2
Mexico	Ba3	12/31/19	6.25[4]	59	59	42	10.6	12.0	21,000	27	3.9
Peru	—[3]	12/31/07	9.94	13	21	11	NM	NM	300	3,399	-4.3
Uruguay	—[3]	2/18/07	7.38[4]	80	80	70	9.2	10.3	447	113	1.5
Venezuela	Ba2	3/31/20	6.75[4]	68	70	47	9.9	11.8	6,700	41	4.4
United States	Aaa[5]	8/15/20	8.75	109	110	102	8.0	7.9	21,419	5.4	1.0

[1]Price level increase, December 1989 to December 1990. [2]Percent change in gross domestic product, 1990, except Uruguay, which is for 1989. [3]Not rated. [4]Principal guaranteed by zero coupon U.S. Treasury obligations. [5]U.S. government debt is not rated but would receive the highest (Aaa) credit rating if it were. NM: Not meaningful; bond is either nonperforming or pays only partial interest.

Sources: International Monetary Fund; Merrill Lynch Capital Markets; Megy Investment Advisors; Moody's Investor Services.

Countries south of the border don't quite rank with the U.S. in credit quality, but investors can at least insulate themselves from currency risk by sticking to bonds payable in U.S. dollars.